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C O N F I D E N T I A L SECTION 01 OF 04 SHANGHAI 000791

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SUBJECT: SHANGHAI ACADEMIC ZHANG NIANCHI ON TAIWAN

REF: A) SHANGHAI 158 AND PREVIOUS B) GUANGZHOU 1271 C) BEIJING 7165 D) TAIPEI 2053

CLASSIFIED BY: Kenneth Jarrett, Consul General , U.S. Consulate  
, Shanghai .  
REASON: 1.4 (b), (d)

¶1. (C) Summary. During a December 11 lunch, Shanghai Institute for East Asian Studies (SIEAS) President Zhang Nianchi warned that the 2008 referendum on Taiwan's UN membership would have serious consequences for cross-Straits relations. The referendum has a good chance of passing, especially if Taiwan adopts a one-step voting process for the referendum. Zhang is less concerned about the Presidential elections, noting that either DPP candidate Frank Hsieh or KMT candidate Ma Ying-jeou would be an improvement over current President Chen Shui-bian. Zhang was pleased about recent USG statements against the referendum, but warned that Chen continues to lie about his actions and urged that the USG be more aggressive. Zhang said most Chinese academics agree that the referendum crosses the Anti-Secession Law's redlines, but the Central Government is not willing to say this publicly, in part, for fear of hurting U.S.-China relations. End Summary.

¶2. (C) The CG hosted a lunch for SIEAS President Zhang Nianchi on December 11 to discuss cross-Straits relations. SIEAS Deputy Director Hu Lingwei, SIEAS Department for Cross-Straits Relationship Director Chen Yinghua, SIEAS International Relations Department Director Zhang Zuqian, DPO, Pol/Econ Chief and Poloff also attended the lunch. Zhang was the assistant to cross-Straits interlocutor Wang Daohan and is a prominent Shanghai Taiwan expert in his own right. See reftel A for previous discussions on Taiwan.

The Referendum

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¶3. (C) Like many academics in China (reftel B and C), Zhang is pessimistic about the impact of the March Taiwan UN referendum on the future of cross-Straits relations. Beijing is worried that if the referendum passes, it will not be able to return to having meaningful discussions with the Taiwan government on cross-Straits issues. Taiwan representatives (academics and government officials) stressed to Zhang during a recent conference in New York hosted by the National Committee on American Foreign Policy that it will be important to see how the next President of Taiwan implements the referendum results. Zhang is sympathetic to this argument, stating later in the

conversation that if implementation of the referendum is managed well then there will be many opportunities for progress. However, China views the referendum and the 2008 Presidential elections differently from the 2000 and 2004 elections. If Taiwan pursues entry into the UN under the name "Taiwan" then the "Republic of China" nomenclature would disappear, thus widening the cross-Straits gap. He implied that it would also be unacceptable for the "Republic of China" to attempt to enter the UN. In addition, Beijing also worries that, in the future, the United States will come to accept the referendum results and re-define the status quo. The CG countered that Beijing should not assume that these potential scenarios will materialize and should be careful that its actions don't make the situation worse.

14. (C) SIEAS Deputy Director Hu Lingwei added that the referendum will also have a big influence on the next President of Taiwan. If the referendum passes and the KMT's Ma Ying-jeou wins the election, then the DPP can use the referendum against Ma. If the referendum passes and the DPP's Frank Hsieh wins the election, then the deep green faction of the DPP will use the referendum to put pressure on Hsieh to push for independence. Passage of the referendum would also negatively affect how people on the Mainland view the residents of Taiwan. Finally, the referendum will affect how Taiwan is viewed in the United States. According to a recent public opinion poll in the United States, Hu continued, 70 to 80 percent of Americans would support UN membership and independence for Taiwan. If the referendum passes, there would be enormous pressure on the Congress and the Administration as the Administration tries to maintain the cross-Straits status quo. Zhang added that Taiwan voter rejection of the UN membership referendum would be the best outcome for cross-Straits relations, if the referendum must actually come to a vote at all.

15. (C) Zhang asserted that the one-step voting process (reftel SHANGHAI 00000791 002 OF 004

D) in which Taiwan voters would use the same ballot to vote for the President and the referendum would increase voter participation in the referendum, thus making valid referendum results more likely. The KMT has no way to stop this process from being adopted and the one-step process will likely provide the DPP with a big advantage.

Better Than Chen Shui-Bian  
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16. (C) Zhang was less pessimistic about the Presidential election, noting that both DPP candidate Frank Hsieh and KMT candidate Ma Ying-jeou are better than current President Chen Shui-bian. It is unclear how close Hsieh is to Chen. In the beginning, the DPP campaign centered on Hsieh, now it looks like the election is all about Chen. Zhang hoped that Chen's influence will decrease once he is out of power. Zhang said a KMT win at the January 2008 Legislative Yuan (LY) elections will bring both benefits and challenges to the KMT. A large KMT margin of victory will motivate the DPP to become more active and further unite the DPP, while a KMT loss will be an even bigger plus for the DPP.

Anti-Secession Law's Redline  
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17. (C) Zhang noted that there have been three conferences in China this year on whether the referendum crosses the Anti-Secession Law's redlines. Zhang participated in two of those conferences. Academics at the conferences all agree that the referendum does indeed cross the Anti-Secession Law's redlines. According to Zhang, however, the Central Government is not willing to say this publicly. First, the U.S.-China relationship has become too important. President Bush and President Hu have a very good personal relationship in which they call each other if there are any problems. Second, China's approach to opposing the referendum is different from its approach to past attempts by Taiwan to further independence.

Moreover, the international community has been very active in denouncing the referendum. China no longer has to do everything by itself and is putting the actions of the international community ahead of its own internal actions.

USG Taiwan Policy: An Improvement, But~  
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¶18. (C) Zhang acknowledged that the United States has used considerable effort to oppose the referendum, such as recent statements by EAP DAS Christensen and AIT Chairman Burghardt. He saw this as a breakthrough in U.S.-China relations. The Taiwan Relations Act did not set up the kind of treaty ally relationship between the United States and Taiwan such as exists between the United States and its European allies. It is clear that the U.S. actions on Taiwan are motivated by self-interest, which he saw as positive. If the United States was acting on the basis of helping China than this would upset Taiwan and have a negative impact on cross-Straits relations. He implied, however, that the United States needs to be even more assertive in reining in Taiwan. He noted the recent meeting between AIT Chairman Burghardt and President Chen, in which Chen again promised not to violate his "4 No's" pledge before he leaves office in May 2008. Zhang believes that Chen is lying and will continue to violate the "4 No's." The United States is being treated by Chen like a "fool" or "blockhead" with minimal U.S. reaction to Chen's self-evident falsehoods; the lack of a strong U.S. response to Chen for his lies confuses China, Zhang said.

¶19. (C) Zhang also disagreed with U.S. arguments that the referendum is part of the democratic process. While the United States does not support the content of the referendum, it does not oppose Taiwan holding referendums. According to Zhang, referendums should not be used to address and resolve any cross-Straits issues. It is unfair for the 23 million people on Taiwan to use a referendum to make decisions for the 1.3 billion people on the Mainland. Similarly, it would be unfair for the 1.3 billion people on the Mainland to impose its will on the people of Taiwan based on a referendum conducted in the Mainland. There needs to be a standard or norm used in deciding cross-Straits relations. As noted during the 17th Communist Party Congress in October, both sides must decide issues together. Otherwise there will be a referendum that promotes independence during every election.

After the Referendum

SHANGHAI 00000791 003 OF 004  
  
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¶10. (C) As noted above, Zhang believes that proper implementation of the referendum by the next President of Taiwan can create opportunities for progress in cross-Straits relations. He noted that President Hu Jintao's report to the 17th Party Congress called for peaceful national reunification and use of the "one country, two systems" principle. Before discussions can begin for resolving all cross-Straits issues, all the issues that were left unresolved during past negotiations must be resolved, including whether Taiwan is recognized as a government in such talks. The "One China Principle" should be used as a basis for discussions. If the One China issue is resolved, then all other issues such as the status of Taiwan people on the Mainland, treatment of Taiwan investments in the Mainland and related issues can also be resolved. As for negotiators, Zhang could not confirm rumors that former United Front Head Yan Mingfu will take over the Association for Relations Across the Taiwan Straits (ARATS). Yan would outrank his Straits Exchange Foundation (SEF) counterpart, Hong Chi-Cheng, which could raise concerns about the appropriateness of their possible interaction. Zhang said that former Vice Premier Qian Qichen had also been considered for the ARATS position but there was also concern about his senior rank.

¶11. (C) Zhang is pessimistic that there will be any progress on establishing the three direct links (postal, transportation, and trade) in the next few years. It will be difficult for either

Ma Ying-jeou or Frank Hsieh to bring about much progress. Ma could not simply force progress in this area and would likely face strong opposition from the DPP. The deep green faction within the DPP would likely not allow Hsieh, if he becomes President, to reverse Chen's policies on the three links.

#### Kitty Hawk Incident

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¶12. (C) Turning to the USS Kitty Hawk incident, Zhang agreed with Chinese Foreign Minister Yang Jiechi's explanation that the incident was a "misunderstanding," despite subsequent MFA statements to the contrary. U.S. Defense Secretary Gates had just finished a successful visit to the Mainland. The Kitty Hawk incident occurred very shortly after the Secretary's departure and cast a bad light on his visit. Hu added that although U.S.-China relations is very good, it still is not very mature and tolerant. When such incidents occur it is easy for either side to suspect the worst in the absence of a clear understanding of how the incident occurred.

#### Taiwan Businessmen

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¶13. (C) Zhang's institute will host a meeting for Taiwan business people in China during the week of December 17. The meeting will include members of the Shanghai Taiwan Business Association, economic agencies and other Taiwan business people.

One issue to be discussed is taxation of Taiwan-invested enterprises in the Mainland. According to Zhang, it is unclear how much Taiwan businesses should pay in taxes. He was unsure if it is a good idea to clarify this issue and noted that many Taiwan businesses have moved out of Shanghai because of increasing operating costs in the area. More and more tax holidays for early Taiwan investments in China are expiring, which may affect Taiwan companies' views of the business environment in the Mainland.

#### U.S.-China-Taiwan Conference

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¶14. (C) Zhang recently returned from a conference in New York on U.S.-China-Taiwan relations sponsored by the National Committee on American Foreign Policy and convened at Columbia University. At the conference were USG representatives such as EAP DAS Christensen, AIT Chairman Burghardt, U.S. academic experts, Taiwan academics, and representatives from Taiwan's four big political parties. The Chinese side included experts from the Mainland and Chinese academics teaching in the United States. Zhang complained that Chinese academics teaching in the United States did not represent thinking on this issue in China.

He added that the Ministry of Foreign Affairs will likely review future participation at such conferences more carefully and select academics more representative of official views in the Mainland.

SHANGHAI 00000791 004 OF 004

¶15. (C) Zhang himself had to get permission from the Ministry of Foreign Affairs and the Taiwan Affairs Office to attend the conference. Upon arrival in New York he met with the Chinese Consul General and discussed Taiwan and the upcoming conference.

In general, Zhang needs to get permission from the Central Government to travel overseas. Although many academics at his institute visit Taiwan regularly, he has not visited Taiwan for 13 years. This is due mainly to his high profile. He was cross-Straits interlocutor Wang Daohan's close advisor and could not travel to Taiwan as long as Wang was alive because anything he said would be attributed to Wang.

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